

Message Text

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PAGE 01 BONN 19710 01 OF 02 241521Z

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

EA-10 FRB-01 INR-07 IO-10 NEA-10 NSAE-00 RSC-01

OPIC-06 SP-02 TRSE-00 CIEP-02 LAB-04 SIL-01 SWF-01

OMB-01 AEC-07 DODE-00 FEAE-00 FPC-01 H-02 INT-05 L-02

NSC-05 PM-03 SAM-01 OES-05 SS-15 STR-04 PA-02 PRS-01

USIA-15 /150 W

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R 241203Z DEC 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6989

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS SECTION 01 OF 02 BONN 19710

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: ECON, ENRG, GW

SUBJECT: CHANCELLOR SCHMIDT ON OIL PROBLEMS

1. SUMMARY: IN A NEWSPAPER INTERVIEW CHANCELLOR SCHMIDT, AMONG OTHER THINGS, DEALT AT SOME LENGTH WITH OIL PROBLEMS. ACCORDING TO SCHMIDT, COPING WITH "THE PRESENTLY MOST IMPORTANT PROBLEM OF WORLD POLITICS" REQUIRES A GREATER ROLE OF GOVERNMENT AT NATIONAL LEVELS AS WELL AS INTENSIFIED INTERNATIONAL COOPERATION. HE SAW NO LIKELIHOOD OF POLITICAL OR MILITARY PRESSURES AGAINST OIL PRODUCERS, BUT DID NOT RULE OUT THE POSSIBILITY

UNCLASSIFIED

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PAGE 02 BONN 19710 01 OF 02 241521Z

THAT ANY FUTURE SERIOUS CRISIS COULD PROMPT THE U.S.

AND U.S.S.R. "TO ACT IN UNISON," AS DURING THE SUEZ CRISIS IN 1956. THE CHANCELLOR DISCOUNTED POLICY DIFFERENCES WITH ECONOMICS MINISTER FRIDERICH'S AND THE BUNDESBANK; HE WAS CRITICAL OF THE COUNCIL OF ECONOMIC EXPERTS. END SUMMARY..

2. IN A TOUR D'HORIZON INTERVIEW PUBLISHED IN HANDELS-BLATT ON DECEMBER 23, THE CHANCELLOR -- WHILE REITERATING THE MERITS OF BASIC ADHERENCE TO FREE MARKET PRINCIPLES -- EMPHASIZED THAT THE NEW ECONOMIC SITUATION IN THE WORLD REQUIRES "VERY MUCH STRONGER INTERVENTION ON THE PART OF GOVERNMENT IN CERTAIN FIELDS." ALL INDUSTRIALIZED COUNTRIES MUST SEEK REDUCED OIL CONSUMPTION AND PROMOTE INVESTMENT IN ALTERNATIVE ENERGY SOURCES, HE SAID. HOWEVER, REQUIRED MOST OF ALL IS COOPERATION AMONG OIL CONSUMERS AS WELL AS BETWEEN OIL CONSUMERS AND PRODUCERS. WHAT IS OFTEN REFERRED TO IN AN OVERSIMPLIFIED FASHION AS "RECYCLING" CANNOT FUNCTION PROPERLY WHEN LEFT TO MARKET FORCES ALONE. NEVERTHELESS, THE PARTIES CONCERNED SHOULD RESORT TO REGULATORY MECHANISMS COMMENSURATE WITH FREE MARKET PRINCIPLES TO THE GREATEST POSSIBLE EXTENT. THE GREATER THE RECOURSE TO OUTRIGHT GOVERNMENTAL CONTROL, SUCH AS RATIONING OF GASOLINE OR CRUDE OIL, THE GREATER WILL BE MALDEVELOPMENTS IN THE LONG RUN, THE CHANCELLOR ASSERTED.

3. QUESTIONED ON THE LIKELIHOOD OF POLITICAL OR "MILITANT" COUNTER PRESSURES AGAINST OIL PRODUCERS, THE CHANCELLOR REPLIED: "THERE ARE CERTAINLY PEOPLE TAKING SOMETHING LIKE THAT INTO CONSIDERATION. THE FEDERAL GOVERNMENT OF THIS COUNTRY IS NOT AMONG THEM. IT (THE FRG) WOULD NOT PARTICIPATE IN IT EITHER." ALSO JOINT INTERVENTION BY THE TWO SUPER POWERS BY "MILITARY OR OTHER MEANS OF FORCE" ARE "PRESENTLY VERY UNLIKELY," SCHMIDT EXPLAINED. POINTING TO THE RELATIVE INDEPENDENCE OF THE U.S.A. AND THE U.S.S.R. FROM ENERGY IMPORTS, HE SUGGESTED THAT FOR THEM "DIRECT VITAL INTERESTS" ARE NOT INVOLVED. HOWEVER, HE TOLD HANDELS-

UNCLASSIFIED

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PAGE 03 BONN 19710 01 OF 02 241521Z

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PAGE 01 BONN 19710 02 OF 02 241517Z

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UNCLAS SECTION 02 OF 02 BONN 19710

BLATT, OTHER POLITICAL CRISES ENDANGERING THE WORLD AS A WHOLE, SUCH AS SUEZ IN 1956, HAVE BEEN SETTLED BY MEANS OF OPEN OR CONCEALED "ACTION IN UNISON" BY THE TWO WORLD POWERS. REPETITION OF THIS IS POSSIBLE, THAT IS IF THERE WERE TO BE A NEW SERIOUS NEAR EAST CRISIS OR IF OIL PROBLEMS, TOGETHER WITH OR INDEPENDENT FROM A NEAR EAST CRISIS, WERE TO SERIOUSLY ENDANGER THE WORLD AS A WHOLE, HE SAID.

4. TURNING TO DOMESTIC ISSUES, THE CHANCELLOR DENIED AN ALLEGED CLASH WITH ECONOMICS MINISTER FRIDERICHs OVER ECONOMIC POLICY. ACCORDING TO HIM, THE "CONCEPT" APPROVED BY THE CABINET (PRESUMABLY THE RECENT PROGRAM UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BONN 19710 02 OF 02 241517Z

TO STIMULATE THE ECONOMY) WAS DRAFTED BY FRIDERICHs

AND WILL BE EXECUTED BY HIM. "THERE ARE NO DIFFERENCES OF VIEW," HE SAID. GOVERNMENT/BUNDESBANK RELATIONS, SCHMIDT ASSERTED, HAVE BEEN MARKED BY FAR-REACHING AGREEMENT IN RECENT YEARS. IN THIS CONTEXT, HE CAME OUT AGAINST A FURTHER EXPANSION OF THE BUNDESBANK'S TOOL KIT, SUCH AS INTRODUCTION OF QUANTITATIVE CREDIT CONTROLS, BUT AT THE SAME TIME DENIED ANY INTENTION TO REDUCE THE AUTONOMY OF THE CENTRAL BANK BY CHANGING CURRENTLY APPLICABLE RULES. THE COUNCIL OF ECONOMIC EXPERTS MET WITH A SKEPTICAL APPRAISAL BY THE CHANCELLOR. WHILE ESSENTIALLY AGREEING WITH THE COUNCIL'S LATEST APPRAISAL OF RECENT ECONOMIC DEVELOPMENTS, HE QUESTIONED THE WISDOM OF ITS PROJECTIONS FOR EARLIER YEARS, IMPLYING SUBSTANTIAL DEVIATIONS FROM LATER ACTUAL DEVELOPMENTS.

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